



Susan Montee, CPA
Missouri State Auditor

May 2007

REVENUE

State Lottery Commission

Three Years Ended
June 30, 2006



Office Of
Missouri State Auditor
Susan Montee, CPA

May 2007

The following issues were noted in an audit conducted by our office of the Department of Revenue, State Lottery Commission.

The State Lottery Commission (SLC) was created June 11, 1985, following voter approval of a lottery amendment to the Missouri Constitution at the November 1984 general election. State law provides that money received from the sale of lottery tickets shall be divided with a minimum of 45 percent to be awarded as prizes; administration, advertising, promotion, and retailer compensation costs shall be paid as appropriated by the General Assembly; and the remainder shall be transferred to the Lottery Proceeds Fund to be appropriated solely for public institutions of elementary, secondary, and higher education.

Follow-up on a recommendation from a separate audit that reviewed the cost of promotional items of all state departments (Report No. 2004-55) found that the State Lottery Commission continues to sponsor various private organization events. Our office reviewed two payments to private organizations totaling \$60,000 and seven purchases of promotional items totaling approximately \$57,000 that were not approved by the lottery's promotional department. There were either no proposals on file or the proposals from the private organizations did not indicate the benefits the SLC would receive from the sponsorships. According to SLC management, all sponsorships are now processed by the promotional department, which requires a formal written proposal.

We had no new findings on the State Lottery Commission.

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YELLOW SHEET

STATE LOTTERY COMMISSION

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STATE AUDITOR'S REPORT



SUSAN MONTEE, CPA
Missouri State Auditor

Honorable Matt Blunt, Governor
and
State Lottery Commission
and
Larry Jansen, Executive Director
State Lottery Commission
Jefferson City, MO 65102

The State Auditor is required under Section 313.315.1, RSMo, to audit the State Lottery Commission. The commission engaged Cochran, Head & Co., P.C., Certified Public Accountants (CPAs), to audit the commission's financial statements for the years ended June 30, 2006, 2005, and 2004. To satisfy our statutory obligation and minimize duplication of effort, the State Auditor has used the work of the CPA firm. We reviewed the reports and substantiating working papers of the CPA firm to satisfy ourselves as to the appropriateness of using the reports, and we accept them in partial fulfillment of our responsibility under Section 313.315.1, RSMo. The scope of our audit included, but was not necessarily limited to, the years ended June 30, 2006, 2005, and 2004. The additional objectives of this audit were to:

1. Review internal controls over significant management and financial functions.
2. Review compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and operations.
4. Determine the extent to which the recommendation included in a related audit report was implemented.

Our methodology to accomplish these objectives included reviewing minutes of meetings, written policies, financial records, and other pertinent documents; interviewing various personnel of the commission, as well as certain external parties; and testing selected transactions.

In addition, we obtained an understanding of internal controls significant to the audit objectives and considered whether specific controls have been properly designed and placed in operation. We also performed tests of certain controls to obtain evidence regarding the effectiveness of their design and operation. However, providing an opinion on internal controls was not an objective of our audit and accordingly, we do not express such an opinion.

We also obtained an understanding of legal provisions significant to the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting significant instances of noncompliance with the provisions. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances. The work for this audit was substantially completed by March 2007.

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the commission's management and was not subjected to the procedures applied in the audit of the commission.

No findings resulted from our audit of the State Lottery Commission.

A handwritten signature in black ink, appearing to read "Susan Montee".

Susan Montee, CPA
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits:	Kenneth W. Kuster, CPA
Audit Manager:	Peggy Schler, CPA
In-Charge Auditor:	Robyn Lamb
Audit Staff:	Ali Arabian
	Kimberly Reese
	Patrick Pullins

FOLLOW-UP ON PRIOR AUDIT FINDINGS

STATE LOTTERY COMMISSION FOLLOW-UP ON PRIOR AUDIT FINDINGS

In accordance with *Government Auditing Standards*, this section reports the auditor's follow-up on action taken by the State Lottery Commission on the finding in the Management Advisory Report (MAR) of our prior audit report issued for the two years ended June 30, 2003.

Promotional Items

A separate audit was performed which reviewed the cost of promotional items of all state departments, including the State Lottery Commission (SLC). This separate report (report number 2004-55) was issued July 2, 2004. The report concluded the commission gave various promotional items to attendees at meetings/conferences to promote the lottery, paid to sponsor a golf hole at the Petroleum Marketers Association annual golf event, and gave retailers television sets and DVD players to enhance working relationships with them. The value received by the SLC from these expenditures was questioned in the audit report. Recommendations concerning the issue and the SLC responses were included in that report and were not repeated in our prior SLC audit report issued for the two years ended June 30, 2003.

Status:

Not implemented. The SLC is requested to sponsor various private organization events. If approved by the SLC, amounts are paid to the organizations directly or promotional items are purchased to be given to attendees of the events. Depending upon the nature of the private event, the sponsorships were either requested through the promotional department or another employee within the SLC. We reviewed two payments to private organizations totaling \$60,000 and seven purchases of promotional items totaling approximately \$57,000 which were not approved by the promotional department. There were either no proposals on file or the proposals from the private organizations did not indicate the benefits the SLC would receive from the sponsorships. According to SLC Management, beginning in early fiscal year 2007, all sponsorships of private organizations are now processed by the promotional department, which requires all private organizations to submit a formal proposal in writing including, but not limited to, the nature and scope of the event, various sponsorship levels and costs with all benefits and values assigned to each level, expected attendance, and audience demographics. However, SLC Management also stated they will continue to honor all commitments made for fiscal year 2007 prior to the change in policy. The SLC should ensure all future events of this type submit formal proposals as required by the current policy.

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

STATE LOTTERY COMMISSION HISTORY, ORGANIZATION, AND STATISTICAL INFORMATION

The State Lottery Commission was created June 11, 1985, by Senate Bill No. 44, First Regular Session, 83rd General Assembly. That action followed voter approval of a lottery amendment to the Missouri Constitution at the November 1984 general election. The State Lottery Commission began selling instant game tickets on January 20, 1986.

Section 313.321, RSMo, provides that money received from the sale of lottery tickets shall be divided as follows: A minimum of 45 percent shall be awarded as prizes; administration, advertising, promotion, and retailer compensation costs shall be paid as appropriated by the General Assembly; and the remainder shall be transferred to the Lottery Proceeds Fund to be appropriated solely for public institutions of elementary, secondary, and higher education.

A five-member lottery commission is appointed by the governor with the advice and consent of the Senate. The commission must meet at least quarterly. The commission has the authority to promulgate rules as it deems necessary and desirable to fully implement the lottery as mandated by the people in Article III of the Missouri Constitution. It appoints a director to act as secretary of the commission and keep all books and records of the commission. The director of the lottery oversees the commission's operation and administration. At June 30, 2006, Larry Jansen served as the Executive Director. At June 30, 2006, the members of the commission were as follows:

<u>Commissioner</u>	<u>Term Expires</u>
Barbara Pickering, Chair	September 9, 2008 (1)
Sherri Robins	September 7, 2006*
Celeste Witzel	September 7, 2007 (2)
Charles Larry Ray	September 7, 2008 (3)
Barbara Tiedt	September 9, 2007 (4)

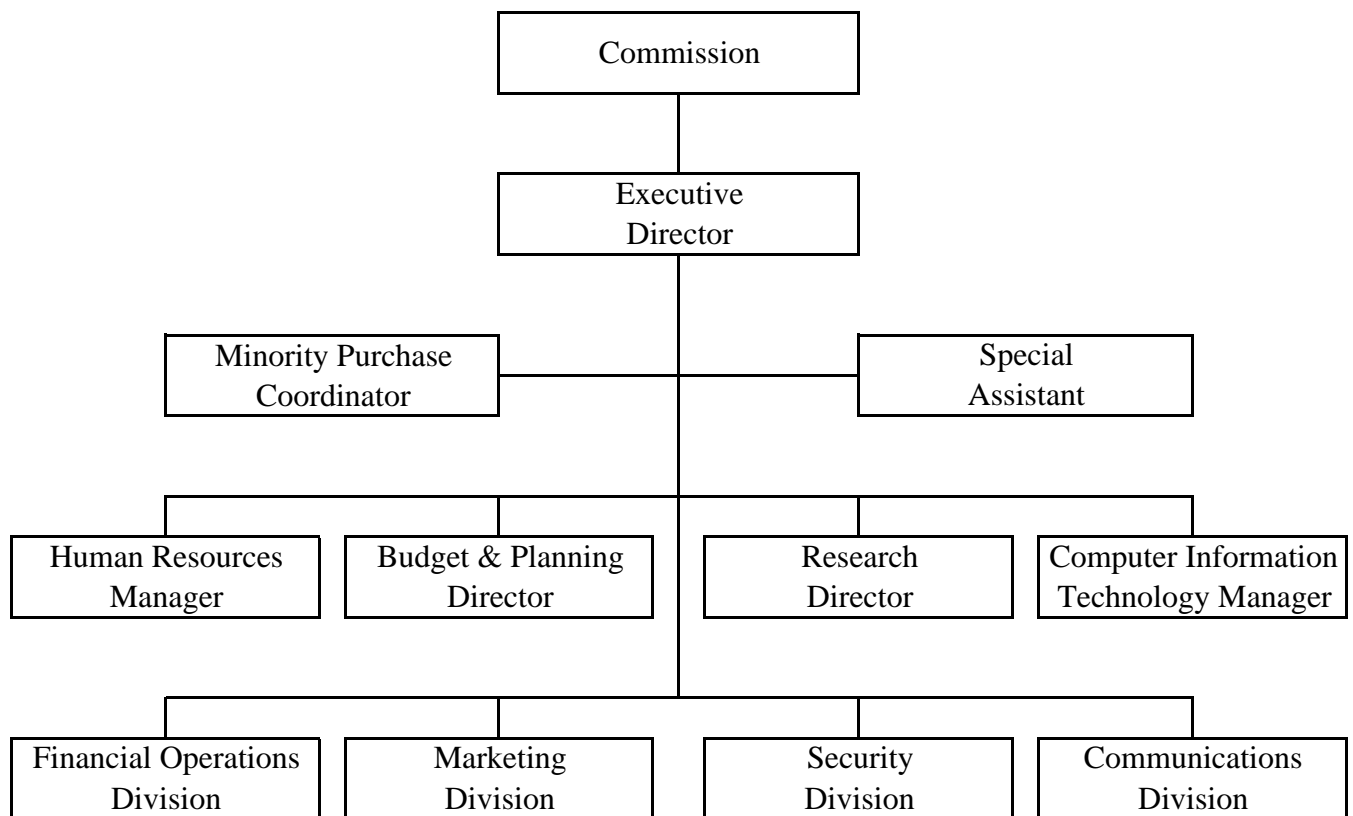
* Commissioners continue to serve until a replacement is named.

- (1) Barbara Pickering was nominated as chair on June 23, 2005.
- (2) Celeste Witzel was appointed April 21, 2005, to replace Kenneth R. Hensley.
- (3) Charles Larry Ray was appointed May 11, 2005, to replace Sue Carrol Terry.
- (4) Barbara Tiedt was appointed April 26, 2006, to replace Mitchel Giesler.

The State Lottery Commission staff is organized into four divisions. Each division is headed by a director who coordinates activities to meet the commission's objectives. At June 30, 2006, the State Lottery Commission employed approximately 175 individuals.

An organization chart follows:

STATE LOTTERY COMMISSION
ORGANIZATION CHART
JUNE 30, 2006



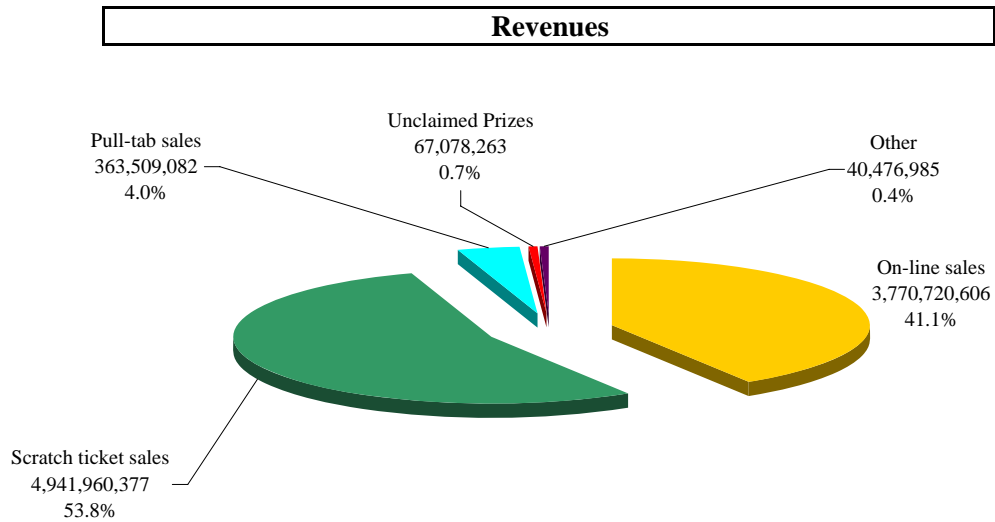
Appendix A

STATE LOTTERY COMMISSION
REVENUE AND EXPENDITURE DATA
FIVE YEARS ENDED JUNE 30, 2006

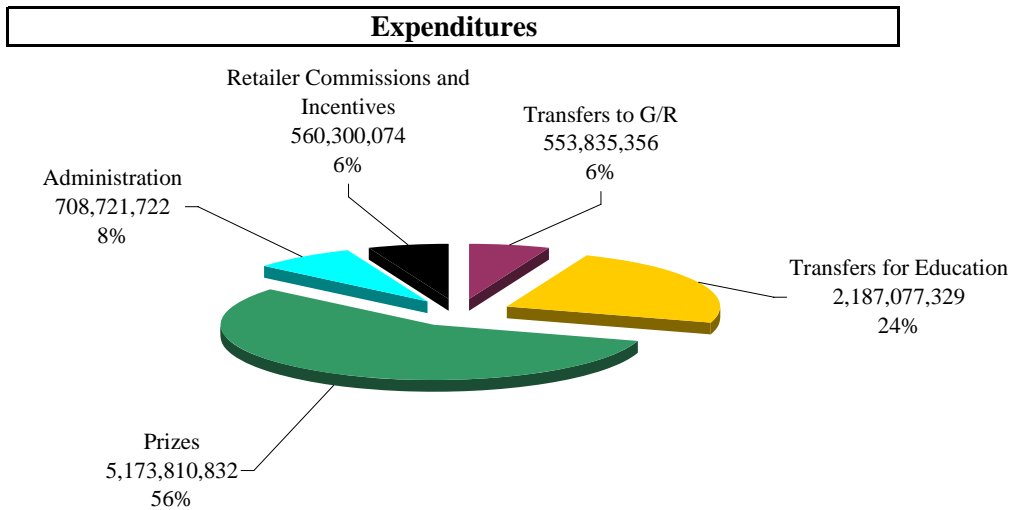
		Year Ended June 30,				
		2006	2005	2004	2003	2002
Revenues						
Scratch ticket sales	\$	550,961,109	467,326,093	434,791,673	393,981,254	316,397,488
On-line ticket sales		343,402,242	297,540,450	334,515,765	289,025,023	241,422,798
Pull-tab ticket sales		19,154,900	20,731,089	21,846,920	25,041,235	27,368,968
Unclaimed prizes		11,392,679	7,811,413	12,283,414	16,720,584	6,669,140
Other		1,642,526	931,882	1,094,868	984,989	1,478,410
Total	\$	<u>926,553,456</u>	<u>794,340,927</u>	<u>804,532,640</u>	<u>725,753,085</u>	<u>593,336,804</u>
Expenditures						
Transfers for Education	\$	260,668,735	218,642,710	229,427,183	203,466,261	160,038,467
Prizes		572,767,960	487,925,882	484,827,462	434,559,460	353,075,456
Administration		36,573,611	38,973,613	40,961,229	43,273,902	43,122,166
Retailer commissions and incentives		56,543,150	48,798,722	49,316,766	44,453,462	37,100,715
Total	\$	<u>926,553,456</u>	<u>794,340,927</u>	<u>804,532,640</u>	<u>725,753,085</u>	<u>593,336,804</u>

Appendix B

STATE LOTTERY COMMISSION
REVENUE AND EXPENDITURE CHARTS
JANUARY 20, 1986 THROUGH JUNE 30, 2006



Total Revenues: \$9,183,745,313

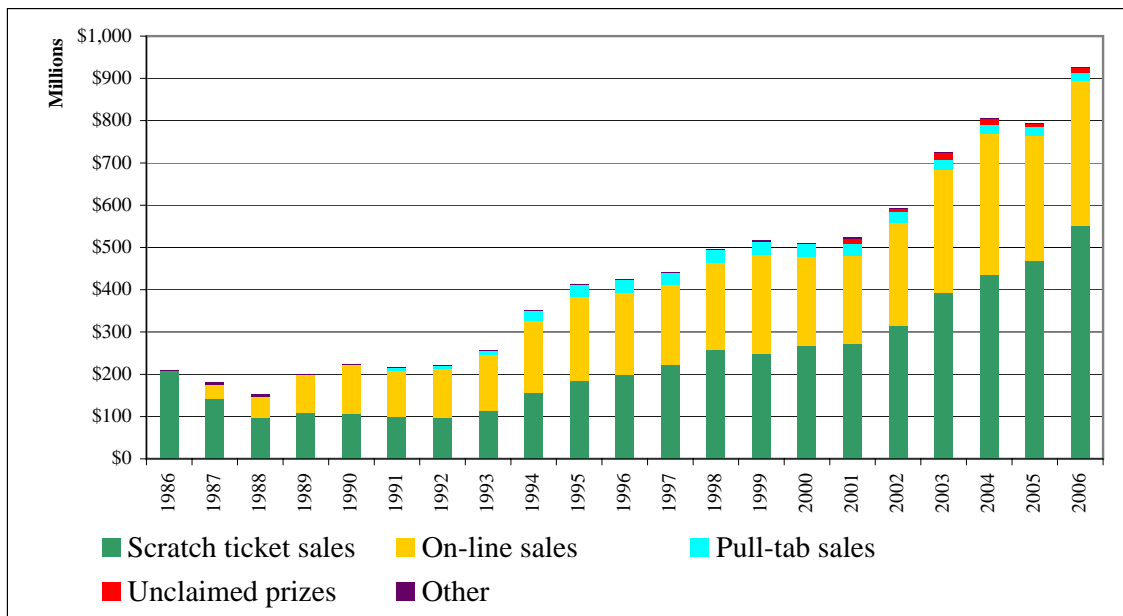


Total Expenditures: \$9,183,745,313

Appendix C

STATE LOTTERY COMMISSION REVENUE AND EXPENDITURE CHARTS JANUARY 20, 1986 THROUGH JUNE 30, 2006

Revenues



Expenditures

